

Message Text

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ACTION EB-08

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E.O. 11652: N/A
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SUBJ: NIOC ENCOUNTERS PROBLEMS IN EXPORTING OIL PRODUCTS

1. THE CONSORTIUM DID, AS HAD BEEN ANTICIPATED IN PREVIOUS REPORTING, TERMINATE ITS AGREEMENT WITH NIOC TO EXPORT REFINED PRODUCTS FROM THE ABADAN REFINERY ON JAN 1. HOWEVER, THE DIFFICULTIES WHICH NIOC HAS EXPERIENCED IN MARKETING THE PRODUCTS, THE BULK OF WHICH IS FUEL OIL, HAVE BEEN MUCH MORE SERIOUS THAN ANTICIPATED. MOST OF THE CONSORTIUM TRADING COMPANIES HAVE ON AN INDIVIDUAL BASIS CONTINUED TO BUY PRODUCTS, BUT THE QUANTITIES HAVE DECREASED AND FEW IF ANY OF THEM HAVE SIGNED LONG TERM CONTRACTS AND THEY ARE MERELY PURCHASING ON A SPOT BASIS. NIOC HAS BEEN PUSHING THE JAPANESE TO INCREASE THEIR EXPORTS OF FUEL OIL BUT WITH ONLY LIMITED SUCCESS.

2. THE PROBLEMS FACED BY NIOC STEM FROM THE IMBALANCE BETWEEN THE AGGREGATE PRODUCT MAKE OF IRANIAN REFINERIES (TILTED TOWARDS HEAVY PRODUCTS) AND THE PATTERN OF DOMESTIC CONSUMPTION (TILTED TOWARDS MIDDLE DISTILLATES). IN ORDER TO PRODUCE THE MIDDLE DISTILLATES, SPECIFICALLY KEROSENE AND GAS OIL, NEEDED FOR LOCAL CONSUMPTION, NIOC MUST PRO-

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DUCE CONSIDERABLE QUANTITIES OF FUEL OIL WHICH ARE EXCESS TO IRAN'S NEEDS. IT IS, OF COURSE, PARTICULARLY BURDENSOME FOR NIOC TO HAVE BEGUN THE RESPONSIBILITY FOR PRODUCT EXPORTS DURING THE WINTER SEASON WHEN THE DEMAND FOR MIDDLE DISTILLATES IS AT A PEAK. DURING 1977, ABOUT 230 MBPD OF REFINED PRODUCTS, ALMOST 80 PERCENT OF WHICH WAS FUEL OIL, WAS EXPORTED FROM ABADAN AND THE NEED TO EXPORT FUEL OIL WILL BE EVEN MORE ACUTE THIS YEAR

SINCE A 130 MBPD EXPANSION THAT ABADAN REFINERY RECENTLY CAME ON STREAM.

3. THEY INTERNATIONAL MARKETING DEPT OF NIOC HAS DISCOVERED TO ITS CHAGRIN THAT THE MARKETING OF PRODUCTS DEMANDS A MUCH HIGHER LEVEL OF SOPHISTICATION THAN IS REQUIRED FOR CRUDE. THE PATTERN OF PRICES THAT MUST BE PAID BY VARIOUS PROSPECTIVE NIOC CUSTOMERS FOR ALTER-NATIVE SOURCES OF SUPPLY IS MORE LIMITED AND BETTER KNOWN IN THE CASE OF CRUDE COMPARED WITH REFINED PRODUCTS; AND, CONSEQUENTLY, NIOC'S GENERAL POLICY OF "THESE ARE ARE THE PRICES, TAKE IT OR LEAVE IT" IS MUCH LESS APPROPRIATE FOR PRODUCTS. IN RECOGNITION OF THE UNIQUE PROBLEMS INVOLVED IN SELLING PRODUCTS, THE MARKETING DEPT REQUESTED AUTHORITY FROM THE NIOC BOARD OF DIRECTORS TO USE ITS OWN DISCRETION TO LOWER PRODUCT PRICES TO THE LEVEL WHICH, IN THE OPINION OF THE MARKETING DEPARTMENT, WOULD ATTRACT SUFFICIENT CUSTOMERS. THE BOARD, ACCORDING TO A RELIABLE EMB SOURCE, DENIED THE REQUEST AND AS A RESULT ALL AVAILABLE TANKAGE AT ABADAN REFINERY IS FILLED WITH FUEL OIL AND THE SITUATION HAS BECOME CRITICAL.

4. THE MEDIUM AND LONG TERM SOLUTION WILL PROBABLY BE FOR NIOC TO INVEST IN HYDRO-CRACKING AND VIS-BREAKING FACILITIES AT ABADAN TO ENABLE A GREATER PERCENTAGE OF THE FUEL OIL TO BE UP GRADED. HOWEVER, A SHORT TERM SOLUTION MUST ALSO BE FOUND, AND, ACCORDING TO OUR NIOC SOURCE. THE OIL COMPANY IS PLANNING TO IMPORT LIMITED OFFICIAL USE

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MIDDLE DISTILLATES FROM KUWAIT IN ORDER TO REDUCE THE THROUGH PUT AND, THERE, THE FUEL OIL PRODUCTION OF IRANIAN REFINERIES.

5. THESE DEVELOPMENTS MAY PROVE FORTUITOUS FOR THE CONSORTIUM IF THEY GENERATE INCREASED APPRECIATION FOR THE MARKETING SKILLS PROVIDED TO IRAN BY THE CONSORTIUM. IT ALSO RAISES THE POSSIBILITY THAT NIOC MAY INVITE THE CONSORTIUM TO REASSUME RESPONSIBILITY FOR PRODUCT MARKETING ON MUTUALLY ADVANTAGEOUS TERMS.

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